Renosterberg Local Municipality
(Registration number NC075)
Annual financial statements
for the year ended 30 June 2016

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Renosterberg Local Municipality is a local municipality performing the functions as set out in the Constitution, Act 105 of 1996.
Mayoral committee	
Executive Mayor	Mr.J. Olifant
Councillors	Mr.H. Booysen
	Mr.J.D. Havenga
	Mrs.M.E. Bitterbos
	Mrs.P. Duiker
	Mr.K.Olifant
	Mr.J.J. Niklaas
Grading of local authority	Gategory B as defined by the Municipal Structures Act, Act no 117 of 1998
Accounting Officers	Mr.N.G. Veli (Acting)
Chief Finance Officer (CFO)	Mr.D Molaole (Acting)
Registered office	555 School Street Petrusville 8770
Business address	School Street Petrusville 8770
Postal address	PO Box 112 Petrusville 8770
Bankers	Standard Bank of South Afica Limited
Auditors	Auditor-General South Africa
Attorneys	Balden, Vogel & Vennote Inc Sunil Narian Inc

General Information

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Municipal Finance Management Act (Act no 56 of 2003)
Division of Revenue Act (Act No 5 of 2012)
The Income Tax Act (Act No 28 of 1997)
Value Added Tax Act (Act no 117 of 1998)
Municipal Structures Act (Act No 89 of 1991)
Municipal Systems Act (Act no 117 of 1998)
Municipal Plannning and Performance Management Regulations
Water Services Act (Act no 108 of 1997)
Housing Act (Act no 107 of 1997)
Muncipal Property Rates Act (Act no 6 of 2004)
Electricity Act (Act no 41 of 1987)
Skills Development Levies Act (Act no 9 of 1999)
Employment Equity Act (Act no 9 of 1999)
Unemployment Insurance Act (Act no 30 of 1966)
Basic Conditions of Employment Act (Act no 75 of 1997)
Supply Chain Management Regulatons, 2005

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
DORA	Division of Revenue Act
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IDP	Integrated Development Plan
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
NERSA	National Energy Regulator of South Africa
PAYE	Pay As You Earn
SCM	Supply Chain Management

Accounting Officers' Responsibilities and Approval

The accounting officer us required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer certifies that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 31 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government’s determination in accordance with this Act.

The accounting officer together with senior management have reviewed the municipality's cash flow forecast for the year to 30 JUne 2017 and, in light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existennce for the foreseable future. For detailed going concern assumptions refer to note 45.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 86, which have been prepared on the going concern basis, were approved by the accounting officer on 07 July 2017 and were signed on its behalf by:

Mr. D Molaole (Acting)
Acting Accounting Officer

Accounting Officers' Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interest of the local community within the Renosterberg municipal area and operates principally in South Africa.

The operating results for the year and state of affairs of the municipality are set out in full in the attached annual financial statements and do not in my opinion require further comment.

Net deficit of the municipality was R 11 656 944 (2015: deficit R 7 689 176)

2. Going concern

I draw attention to the fact that at 30 June 2016, the municipality had an accumulated surplus of R 451 645 959 and that the municipality's total assets exceed its total liabilities by R 1 054 950 295.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Furthermore management has reviewed the municipality's cash flow forecast for the year ended 30 June 2017 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue it's operational existence for the foreseable future.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations as published in terms of the Division of Revenue Act (Act 1 of 2016).

For details of managements assumptions with respect to the applicabality of the going concern assumption refer to note 42

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officers' interest in contracts

No matters to report.

5. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any directives and interpretations of such Standards issued by the Accounting Standards Board and in accordance with Section 122(3) of the Municipal Finance Management Act (Act No 56 of 2003)

6. Accounting Officers

The accounting officers of the municipality during the year and to the date of this report are:

Name	Nationality	Changes
Mr. N.G Veli (Acting)	South African	Acting terminated on 30 May 2017
Mr. D Molaole (Acting)	South African	Appointed 30 May 2017

7. Auditors

The Auditor-General South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	5	34 433	36 510
Other receivables from exchange transactions	6	323 567	-
Receivables from non-exchange transactions	7	13 126 099	10 090 191
Receivables from exchange transactions	4	11 396 640	12 475 095
Cash and cash equivalents	3	250 653	776 321
		25 131 392	**23 378 117**
Non-Current Assets			
Investment property	9	10 111 567	10 111 567
Property, plant and equipment	10	1 107 283 745	1 110 010 377
Intangible assets	11	3 834 994	3 866 984
		1 121 230 306	**1 123 988 928**
Total Assets		**1 146 361 698**	**1 147 367 045**
Liabilities			
Current Liabilities			
Finance lease obligation	14	85 591	-
Payables from exchange transactions	16	68 389 953	54 196 867
VAT payable	48	626 494	4 943 319
Consumer deposits	12	370 065	276 980
Employee benefit obligation	13	41 000	155 000
Unspent conditional grants and receipts	18	589 597	-
Provisions	17	1 100 843	326 050
Long service awards	15	197 000	129 000
		71 400 543	**60 027 216**
Non-Current Liabilities			
Finance lease obligation	14	69 069	423 617
Employee benefit obligation	13	956 000	1 599 000
Provisions	17	18 147 791	17 326 973
Long service awards	15	838 000	1 383 000
		20 010 860	**20 732 590**
Total Liabilities		**91 411 403**	**80 759 806**
Net Assets		**1 054 950 295**	**1 066 607 239**
Reserves			
Revaluation reserve		603 304 336	603 304 336
Accumulated surplus	19	451 645 959	463 302 903
Total Net Assets		**1 054 950 295**	**1 066 607 239**

* See Note 40

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	12 298 029	11 632 839
Rental of facilities and equipment	21	400 449	814 367
Sundry Income		14 567	177 733
Interest received - investment	23	266 855	141 387
Total revenue from exchange transactions		**12 979 900**	**12 766 326**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	3 120 407	2 911 376
Licences or Permits		22	946
Income for Agency Services		-	16 551
Transfer revenue			
Government grants & subsidies	25	49 756 907	43 061 557
Fines, Penalties and Forfeits		262	2 280
Total revenue from non-exchange transactions		**52 877 598**	**45 992 710**
Total revenue	26	**65 857 498**	**58 759 036**
Expenditure			
Bulk purchases	27	(9 945 626)	(8 763 048)
Debt Impairment	29	(8 536 029)	2 221 070
Contracted services	28	(4 465 203)	(3 483 907)
Depreciation and amortisation	30	(22 373 787)	(22 500 902)
Employee related costs	31	(16 010 040)	(14 696 400)
Finance costs	32	(6 773 045)	(3 801 138)
General Expenses	33	(8 367 550)	(10 354 320)
Remuneration of councillors	34	(1 969 235)	(2 095 968)
Repairs and maintenance	35	(648 082)	(2 264 564)
Total expenditure		**(79 088 597)**	**(65 739 177)**
Operating deficit		**(13 231 099)**	**(6 980 141)**
Loss on disposal of assets and liabilities		(144 845)	(378 093)
Actuarial gains/(losses)	13	1 719 000	(330 942)
		1 574 155	**(709 035)**
Deficit for the year		**(11 656 944)**	**(7 689 176)**

* See Note 40

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	603 304 336	397 968 251	1 001 272 587
Adjustments			
Prior year adjustments	-	73 023 828	73 023 828
Balance at 01 July 2014 as restated*	**603 304 336**	**470 992 079**	**1 074 296 415**
Changes in net assets			
Surplus for the year	-	(7 689 176)	(7 689 176)
Total changes	-	(7 689 176)	(7 689 176)
Restated* Balance at 01 July 2015	**603 304 336**	**463 302 903**	**1 066 607 239**
Changes in net assets			
Surplus for the year	-	(11 656 944)	(11 656 944)
Total changes	-	(11 656 944)	(11 656 944)
Balance at 30 June 2016	**603 304 336**	**451 645 959**	**1 054 950 295**

Note(s)

* See Note 40

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		8 052 333	10 011 379
Grants		47 310 858	29 656 960
Interest income		266 855	141 387
		55 630 046	39 809 726
Payments			
Employee costs		(17 017 275)	(16 898 310)
Suppliers		(11 859 427)	(2 402 856)
Finance costs		(6 746 390)	(3 801 137)
		(35 623 092)	(23 102 303)
Net cash flows from operating activities	36	**20 006 954**	**16 707 423**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(19 675 010)	(20 237 016)
Proceeds from sale of property, plant and equipment	10	(11 760)	-
Proceeds from sale of investment property	9	-	2 991 100
Movement in intangible assets	11	(85 000)	-
Proceeds from sale of other intangible assets	11	11 760	-
Net cash flows from investing activities		**(19 760 010)**	**(17 245 916)**
Cash flows from financing activities			
Movement in long service awards		(477 000)	468 684
Finance lease payments		(295 612)	(234 005)
Net cash flows from financing activities		**(772 612)**	**234 679**
Net increase/(decrease) in cash and cash equivalents		**(525 668)**	**(303 814)**
Cash and cash equivalents at the beginning of the year		776 321	1 080 135
Cash and cash equivalents at the end of the year	3	**250 653**	**776 321**

* See Note 40

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	15 318 100	-	**15 318 100**	12 298 029	**(3 020 071)**	Note 50
Rental of facilities and equipment	465 300	-	**465 300**	400 449	**(64 851)**	Note 50
Other income - (rollup)	128 500	-	**128 500**	14 567	**(113 933)**	Note 50
Interest received - investment	370 650	-	**370 650**	266 855	**(103 795)**	Note 50
Total revenue from exchange transactions	**16 282 550**	**-**	**16 282 550**	**12 979 900**	**(3 302 650)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4 138 450	-	**4 138 450**	3 120 407	**(1 018 043)**	Note 50
Licences or Permits (Non-exchange)	12 200	(12 200)	**-**	22	**22**	Note 50
Transfer revenue						
Government grants & subsidies	22 061 000	-	**22 061 000**	49 756 907	**27 695 907**	Note 50
Fines, Penalties and Forfeits	11 100	-	**11 100**	262	**(10 838)**	Note 50
Total revenue from non-exchange transactions	**26 222 750**	**(12 200)**	**26 210 550**	**52 877 598**	**26 667 048**	
Total revenue	**42 505 300**	**(12 200)**	**42 493 100**	**65 857 498**	**23 364 398**	
Expenditure						
Personnel	(18 455 193)	-	**(18 455 193)**	(16 010 040)	**2 445 153**	Note 50
Remuneration of councillors	(2 349 600)	-	**(2 349 600)**	(1 969 235)	**380 365**	Note 50
Depreciation and amortisation	(2 770 000)	-	**(2 770 000)**	(22 373 787)	**(19 603 787)**	Note 50
Finance costs	(1 573 000)	-	**(1 573 000)**	(6 773 045)	**(5 200 045)**	Note 50
Bad debts written off	(2 980 000)	-	**(2 980 000)**	(8 536 029)	**(5 556 029)**	Note 50
Repairs and maintenance	(3 679 000)	-	**(3 679 000)**	(648 082)	**3 030 918**	Note 50
Bulk purchases	(7 419 200)	-	**(7 419 200)**	(9 945 626)	**(2 526 426)**	Note 50
Contracted Services	(307 110)	-	**(307 110)**	(4 465 203)	**(4 158 093)**	Note 50
General Expenses	(11 700 130)	-	**(11 700 130)**	(8 367 549)	**3 332 581**	Note 50
Total expenditure	**(51 233 233)**	**-**	**(51 233 233)**	**(79 088 596)**	**(27 855 363)**	
Operating deficit	**(8 727 933)**	**(12 200)**	**(8 740 133)**	**(13 231 098)**	**(4 490 965)**	
Loss on disposal of assets and liabilities	8 800 000	-	**8 800 000**	(144 845)	**(8 944 845)**	
Actuarial gains/losses	-	-	**-**	1 719 000	**1 719 000**	
	8 800 000	**-**	**8 800 000**	**1 574 155**	**(7 225 845)**	
Deficit before taxation	**72 067**	**(12 200)**	**59 867**	**(11 656 943)**	**(11 716 810)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**72 067**	**(12 200)**	**59 867**	**(11 656 943)**	**(11 716 810)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	**-**	34 433	**34 433**	
Other receivables from exchange transactions	-	-	**-**	323 567	**323 567**	
Receivables from non-exchange transactions	3 000 000	-	**3 000 000**	13 126 099	**10 126 099**	
Consumer debtors	10 000 789	-	**10 000 789**	11 396 640	**1 395 851**	
Cash and cash equivalents	479 630	-	**479 630**	250 653	**(228 977)**	
	13 480 419	**-**	**13 480 419**	**25 131 392**	**11 650 973**	
Non-Current Assets						
Investment property	-	-	**-**	10 111 567	**10 111 567**	
Property, plant and equipment	393 150 000	-	**393 150 000**	1 107 283 746	**714 133 746**	
Intangible assets	420 000	-	**420 000**	3 834 995	**3 414 995**	
	393 570 000	**-**	**393 570 000**	**1 121 230 308**	**727 660 308**	
Total Assets	**407 050 419**	**-**	**407 050 419**	**1 146 361 700**	**739 311 281**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	85 591	**85 591**	
Payables from exchange transactions	20 780 093	-	**20 780 093**	68 389 952	**47 609 859**	
VAT payable	-	-	**-**	626 494	**626 494**	
Consumer deposits	150 000	-	**150 000**	370 065	**220 065**	
Employee benefit obligation	-	-	**-**	41 000	**41 000**	
Unspent conditional grants and receipts	-	-	**-**	589 597	**589 597**	
Provisions	-	-	**-**	1 100 843	**1 100 843**	
Long service awards	-	-	**-**	197 000	**197 000**	
	20 930 093	**-**	**20 930 093**	**71 400 542**	**50 470 449**	
Non-Current Liabilities						
Finance lease obligation	-	-	**-**	69 069	**69 069**	
Employee benefit obligation	-	-	**-**	956 000	**956 000**	
Provisions	2 100 000	-	**2 100 000**	18 147 791	**16 047 791**	
Long service awards	-	-	**-**	838 000	**838 000**	
	2 100 000	**-**	**2 100 000**	**20 010 860**	**17 910 860**	
Total Liabilities	**23 030 093**	**-**	**23 030 093**	**91 411 402**	**68 381 309**	
Net Assets	**384 020 326**	**-**	**384 020 326**	**1 054 950 298**	**670 929 972**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	-	-	**-**	603 304 336	**603 304 336**	
Accumulated surplus	384 020 326	-	**384 020 326**	451 645 962	**67 625 636**	
Total Net Assets	**384 020 326**	**-**	**384 020 326**	**1 054 950 298**	**670 929 972**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand and the amounts have been rounded off to the nearest rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5 Property Plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Accounting Policies

1.4 Investment property (continued)

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs is the amount of cash or cash equivalent or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of asset.

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Accounting Policies

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent measurement:

Cost model

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Infrastructure Assets, Community Assets and Land and buildings

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Revaluation Model

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

1.5 Property, plant and equipment (continued)

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		indefinite
Buildings - Operational buildings	Straight line	5, 15 - 80 years, some indefinite
Buildings - Housing	Straight line	5, 15 - 100 years, some indefinite
Furniture and fixtures	Straight line	7 - 10 years
Motor vehicles	Straight line	5 - 7 years
Office equipment	Straight line	3 - 5 years
IT equipment	Straight line	3 - 5 years
Infrastructure	Straight line	5-100 years, some indefinite
Community Assets - Community facilities	Straight line	5-100 years, some indefinite
Community Assets - Sport and recreation facilities	Straight line	5-100 years, some indefinite
Bins and containers	Straight line	5 -7 years
Landfill sites	Straight line	10 - 20 years
Specialised vehicles	Straight line	5 - 7 years
Infrastructure Asset - Wastewater network	Straight line	12 - 100 years, some indefinite
Infrastructure Asset - Water network	Straight line	7 - 100 years, some indefinite
Infrastructure Asset - Roads and stormwater network	Straight line	5 - 100 years, some indefinite
Infrastructure Asset - Electricity network	Straight line	10 - 60 years

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

Accounting Policies

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are intially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Subsequent measurement:

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the earlier of the date that asset is classified as held for sale (or included a disposal group that is classified as held for sale) in accordance with the standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is derecognised.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years
Servitudes	Indefinite

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Accounting Policies

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Accounting Policies

1.8 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial asset measured at cost
Long-term liabilities	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

1.8 Financial instruments (continued)

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Accounting Policies

1.9 Leases (continued)

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

1.10 Inventories (continued)

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

1.12 Employee benefits (continued)

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municpality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.12 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Accounting Policies

1.12 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end, capped at a maximum of 48 days, and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods, if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they are accrued to employees. The liability at year-end is based on bonus accrued at year-endfor each employee.

1.13 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

1.13 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in municipality in combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

1.13 Provisions and contingencies (continued)

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 Sep – 30 April) and winter (1 May to 31 Aug).The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

Interest, royalties and dividends

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

1.16 Revenue from non-exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

When the presentation or classification of an item in the annual financial statements are amended, comparative amounts are reclassified.

Accounting Policies

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Accounting Policies

1.25 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statement. Materiality depends on the nature or size of the omission or mistatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.27 Related parties

The municipality resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:
- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,
- or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the municipality

(a) A person or a close member of that person’s family is related to the municipality if that person
- has control or joint control over the municipality.
- has significant influence over the municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the municipality.
- is a member of the management of the municipality or its controlling entity.

(b) An entity is related to the municipality if any of the following conditions apply:
- the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
- both entities are joint ventures of the same third party.
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- the entity is a post-employment benefit plan for the benefit of employees of either the municipality or an entity related to the municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
- the entity is controlled or jointly controlled by a person identified in (a).
- a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality. A person is considered to be a close member of the family of another person if they:

(a) are married or live together in a relationship similar to a marriage; or
(b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Accounting Policies

1.27 Related parties (continued)

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the municipality, including:

(a) all members of the governing body of the municipality;
(b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the municipality;
(c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the municipality; and
(d) the senior management team of the municipality, including the chief executive officer or permanent head of the municipality, unless already included in (a).

Management personnel include:

(a) All directors or members of the governing body of the municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
(b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting municipality being the Municipal Manager, Chief Financial Officer an all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the municipality.

The municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.29 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The Municipality accounts for VAT on a bi-monthly basis.

1.30 Accumulated surplus

The municipality's surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

Accounting Policies

1.30 Accumulated surplus (continued)

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

1.31 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings and infrastructure are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset’s service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset’s service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality has early adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is set out in note Changes in Accounting Policy.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:
- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:
- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:
- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	31 899	744 906
Short-term deposits	218 755	31 414
	250 654	**776 320**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings:

Credit rating		
F1+	250 654	776 320

Cash and cash equivalents pledged as collateral

No cash and cash equivalents were pledged as security for any financial liability at year-end.

Short - term deposits consists of:		
Standard Bank - Money market call account - 04 891 091 0 001	4 867	8 839
Standard Bank - Money market call account - 04 8910 902 001	-	1 989
Standard Bank - Money market call account - 04 890 965 3001	11 499	1 496
Standard Bank - Money market call account - 04 891 092 9 001	137 957	819
Standard Bank - Money market call account - 04 891 095 3 001	5 488	5 303
Standard Bank - Money market call account - 04 890 950 5 001	36 777	8 973
Standard Bank - Money market call account - 04 890 902 5 002	20 145	1 821
Standard Bank - Money market call account - 04 891 100 3 003	2 022	2 174
	218 755	**31 414**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
Standard Bank - Cheque account 04 891 095 3 - 001	31 899	521 122	294 309	31 899	744 906	286 268
Standard Bank - Money market call account - 04 891 091 0 001	4 867	8 839	9 439	-	-	-
Standard Bank - Money market call account - 04 890 965 3001	11 499	1 496	155 785	-	-	-
Standard Bank - Money market call account - 04 891 092 9 001	137 957	819	3 075	-	-	-
Standard Bank - Money market call account - 04 891 095 3 001	5 488	5 303	5 161	-	-	-
Standard Bank - Money market call account - 04 890 950 5 001	36 777	8 973	296 935	-	-	-
Standard Bank - Money market call account - 04 890 902 5 002	20 145	1 821	412	-	-	-
Standard Bank - Money market call account - 04 891 100 3 003	2 022	2 175	1 701	-	-	-
Standard Bank - Money market call account - 04 8910 902 001	-	1 988	321 359	-	-	-
Total	**250 654**	**552 536**	**1 088 176**	**31 899**	**744 906**	**286 268**

No restrictions have been imposed on the municipality in terms of the utilisation of its cash and cash equivalents.

3. Consumer debtors disclosure (continued)

The management of the municipality is of the opinion that the carrying value of *current investment deposits*, *bank balances* and *cash and cash equivalents* recorded at amortised cost in the annual financial statements approximate their fair values.

4. Receivable from exchange transactions

	2016	2015
Gross balances		
Electricity	16 093 897	13 901 155
Water	10 856 441	8 926 120
Sewerage	6 064 004	4 812 902
Refuse	3 710 869	2 903 388
Sundry and other	5 892 693	4 971 377
	42 617 904	**35 514 942**
Less: Allowance for impairment		
Electricity	(11 905 584)	(8 368 715)
Water	(10 625 912)	(8 167 239)
Sewerage	(4 167 495)	(3 092 487)
Refuse	(2 976 319)	(2 140 192)
Sundry and other	(1 545 955)	(1 271 215)
	(31 221 265)	**(23 039 848)**
Net balance		
Electricity	4 188 313	5 532 440
Water	230 530	758 881
Sewerage	1 896 510	1 720 415
Refuse	734 549	763 197
Sundry and other	4 346 738	3 700 162
	11 396 640	**12 475 095**
Electricity		
Current (0 -30 days)	573 340	512 810
31 - 60 days	505 351	522 139
61 - 90 days	423 019	407 859
91 days +	14 592 187	12 458 347
Less: Allowance for impairment	(11 905 584)	(8 368 715)
	4 188 313	**5 532 440**
Water		
Current (0 -30 days)	286 049	309 859
31 - 60 days	284 472	331 098
61 - 90 days	255 398	236 046
91 days +	10 030 523	8 049 117
Less: Allowance for impairment	(10 625 912)	(8 167 239)
	230 530	**758 881**
Sewerage		
Current (0 -30 days)	151 202	113 383
31 - 60 days	133 863	107 498
61 - 90 days	142 656	102 795
91 days +	5 636 284	4 489 226
Less: Allowance for impairment	(4 167 495)	(3 092 487)
	1 896 510	**1 720 415**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Receivable from exchange transactions (continued)

Refuse		
Current (0 -30 days)	98 194	74 987
31 - 60 days	92 479	71 957
61 - 90 days	88 781	69 126
91 days +	3 431 414	2 687 318
Less: Allowance for impairment	(2 976 319)	(2 140 191)
	734 549	**763 197**

Other (specify)		
Current (0 -30 days)	156 327	149 765
31 - 60 days	144 059	148 713
61 - 90 days	131 374	121 871
91 days +	5 460 933	4 551 028
Less: Allowance for impairment	(1 545 955)	(1 271 215)
	4 346 738	**3 700 162**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	1 054 751	857 600
31 - 60 days	917 270	907 567
61 - 90 days	814 571	759 556
91 - 120 days	30 572 661	24 803 657
	33 359 253	27 328 380
Less: Allowance for impairment	(32 676 260)	(23 677 224)
	682 993	**3 651 156**

Industrial/ commercial		
Current (0 -30 days)	193 132	271 329
31 - 60 days	192 326	230 931
61 - 90 days	183 947	145 789
91 - 120 days	3 786 518	3 067 878
	4 355 923	3 715 927
Less: Allowance for impairment	(4 178 264)	(3 636 427)
	177 659	**79 500**

National and provincial government		
Current (0 -30 days)	205 914	197 737
31 - 60 days	210 404	191 523
61 - 90 days	182 346	169 302
91 - 120 days	11 615 356	9 907 589
	12 214 020	**10 466 151**

Total		
Current (0 -30 days)	1 265 112	1 160 804
31 - 60 days	1 160 224	1 181 405
61 - 90 days	1 041 229	937 696
91 days +	39 151 340	32 235 036
	42 617 905	35 514 941
Less: Allowance for impairment	(31 221 265)	(23 039 847)
	11 396 640	**12 475 094**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Receivable from exchange transactions (continued)

Less: Allowance for impairment		
91 days +	(31 221 265)	(23 039 848)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(23 039 848)	(25 520 954)
Contributions to allowance	(8 181 417)	-
Reversal of allowance	-	2 481 106
	(31 221 265)	**(23 039 848)**

Receivables from exchange transactions pledged as security

No receivables from exchange transactions were pledged as security for any financial liability at year-end.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Terms receivables from exchange transactions

Receivables from exchange transactions are payable within 30 days. The credit period granted is considered to be consistent with the terms used in the public sector, through established practoces and legislation. Discounting of receivables from exchange transaction on initial reccognition is not deemed necessary.

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 10 131 527 (2015: R 11 314 290) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 to 3 months +	10 131 527	11 314 290

Receivables from exchange transactions impaired

As of 30 June 2016, receivables from exchange transactions of R 31 221 265 (2015: R 23 039 848) were impaired and provided for.

The ageing of these loans is as follows:

1 to 3 months +	31 221 265	23 039 848

5. Inventories

Consumable stores	-	15 358
Water at cost	34 433	21 152
	34 433	**36 510**

Inventories recognised as an expense during the year	343 303	347 867

Inventory pledged as security

No inventory is pledged as security for any financial liability at year-end.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

6. Other receivables from exchange transactions

Sundry receivables	323 567	-

7. Receivables from non-exchange transactions

Government grants and subsidies	11 448 064	8 368 476
Property rates	1 678 035	1 721 715
	13 126 099	**10 090 191**

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security for any financial liability at year-end.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Fair value of receivables from non-exchange transactions

Property rates debtors are payable within 30 days. This credit period is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of propert rates debtors is not performed in terms of GRAP 104 on initial recognition.

Consumer receivables from non-exchange transactions (rates)

Property rates: Ageing

Current (0 -30 days)	186 686	165 862
31 - 60 days	159 778	148 616
61 - 90 days	139 636	136 952
>91 days	6 823 194	5 544 088
Provision for impairment	(5 633 260)	(4 273 803)
	1 676 034	**1 721 715**

Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R 5 633 260 (2015: R 4 273 803) were impaired and provided for.

The ageing of these loans is as follows:

1 to 3 months +	5 633 260	4 273 803

Receivables from non-exchange transactions past due but not impaired

Receicvables from non-exchange transactions which are less than 3 months past due are not evaluated for impairment. As 30 June 2016, R1 489 348 (R180 471 - 2015) were past due but not impaired.

1 to 3 months +	1 489 348	180 471

7. Receivables from non-exchange transactions (continued)

Reconciliation of provision for impairment of receivables from non-exchange transactions

	2016	2015
Opening balance	(4 273 803)	(4 318 044)
Provision for impairment	(1 359 457)	44 241
	(5 633 260)	**(4 273 803)**

8. VAT receivable

VAT is payable/receivable on the cash basis. VAT is only paid over to SARS once cash is received from debtors and only claimed from SARS once payment is made to creditors.

9. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	10 111 567	-	10 111 567	10 111 567	-	10 111 567

Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	10 111 567	10 111 567

Reconciliation of investment property - 2015

	Opening balance	Disposals	Total
Investment property	13 102 667	(2 991 100)	10 111 567

Fair value of investment properties	10 111 567	10 111 567

Pledged as security

There are no investment properties pledged as security.

There are no restrictions on the realisability of investment property, the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

10. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	47 910 328	(24 707 360)	23 202 968	47 910 328	(23 773 377)	24 136 951
Infrastructure	494 668 878	(295 360 616)	199 308 262	494 668 878	(281 172 481)	213 496 397
Community	949 767 884	(125 704 422)	824 063 462	949 767 884	(119 140 019)	830 627 865
Other property, plant and equipment	4 674 931	(2 920 162)	1 754 769	4 963 450	(2 815 318)	2 148 132
Leased assets	799 182	(636 289)	162 893	799 182	(534 713)	264 469
Capital work in progress	58 791 391	-	58 791 391	39 336 563	-	39 336 563
Total	**1 556 612 594**	**(449 328 849)**	**1 107 283 745**	**1 537 446 285**	**(427 435 908)**	**1 110 010 377**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Total
Land and buildings	24 136 951	-	-	(933 983)	23 202 968
Infrastructure	213 496 398	-	-	(14 188 136)	199 308 262
Community	830 627 865	-	-	(6 564 403)	824 063 462
Other property, plant and equipment	2 148 132	220 182	(133 085)	(480 460)	1 754 769
Leased assets	264 469	-	-	(101 576)	162 893
Work in progress	39 336 563	19 454 828	-	-	58 791 391
	1 110 010 378	**19 675 010**	**(133 085)**	**(22 268 558)**	**1 107 283 745**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Buildings	25 070 933	-	-	-	(933 982)	24 136 951
Infrastructure	226 843 520	-	-	835 202	(14 182 324)	213 496 398
Community	837 192 267	-	-	-	(6 564 402)	830 627 865
Other property, plant and equipment	3 040 426	11 983	(378 092)	-	(526 185)	2 148 132
Leased assets	451 490	-	-	-	(187 021)	264 469
Work in progress	19 946 732	20 225 033	-	(835 202)	-	39 336 563
	1 112 545 368	**20 237 016**	**(378 092)**	**-**	**(22 393 914)**	**1 110 010 378**

Pledged as security

No property, plant and equipment has been pledged as security for any financial liability at year-end.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Depreciation rates

Assets subject to finance lease (Net carrying amount)

	2016	2015
Leased office equipment	162 893	264 469

10. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations for the infrastructure assets was year end 30 June 2014. Revaluations for infrastructure assets was performed by an independent professional engineer namely Mr. T. Killian CAMA, Pr.Tech Eng, CMC, PMP, PR.CPM from I@T Consulting (Pty) Ltd.

The effective date of the revaluations for the community assets, land and buildings was year end 30 June 2014. Revaluations for infrastructure assets was performed by an independent professional valuer namely Mr. Z van der Merwe SACPVP from I@T Consulting (Pty) Ltd.

I@T Consulting (Pty) Ltd is not connected to the municipality.

Infrastructure assets, community assets, land and buildings are re-valued independently every 5 years.

The valuations were performed using the depreciated replacement cost method.

These assumptions were based on current market conditions.

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	39 336 563	39 336 563
Additions/capital expenditure	19 454 828	19 454 828
	58 791 391	**58 791 391**

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Total
Opening balance	19 946 732	19 946 732
Additions/capital expenditure	20 225 033	20 225 033
Transferred to completed items	(835 202)	(835 202)
	39 336 563	**39 336 563**

There are no fully depreciated property, plant and equipment that is still in use.

No property, plant and equipment were retired from active use and held for disposal during the financial year.

No impairment losses have been recognised on the property, plant and equipment of the municipality at the reporting date.

There were no changes in the estimated useful lives of the municipality's assets for the financial year.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

11. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	930 665	(669 851)	260 814	963 194	(585 390)	377 804
Intangible assets under development	85 000	-	85 000	-	-	-
Servitudes	3 489 180	-	3 489 180	3 489 180	-	3 489 180
Total	**4 504 845**	**(669 851)**	**3 834 994**	**4 452 374**	**(585 390)**	**3 866 984**

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	377 805	-	(11 760)	(105 230)	260 815
Intangible assets under development	-	85 000	-	-	85 000
Servitudes	3 489 180	-	-	-	3 489 180
	3 866 985	**85 000**	**(11 760)**	**(105 230)**	**3 834 995**

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software, other	484 791	(106 986)	377 805
Servitudes	3 489 180	-	3 489 180
	3 973 971	**(106 986)**	**3 866 985**

Pledged as security

No intangible assets are pledged as security for any financial liability at year-end.

Restricted title

There are no intangible assets whose title is restricted.

There are no internally generated assets at reporting date.

There are no contractual commitments for the acquisition of intangible assets.

12. Consumer deposits

	2016	2015
Electricity and water	370 065	276 980

Deposits are paid by consumers for new electricity and water connections and are repaid when connections are terminated. Where consumers default on their payments the municipality can utilise deposits as payments for outstanding amounts.

No interest is paid on deposits held.

Management is of opinion that the carrying value of the deposits approximates the fair value.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

12. Consumer deposits (continued)

The fair value of deposits were determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

13. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is liable for a certain portion of the medical aid membership fee. The municipality operates as unfunded defined benefit plan for these qualifying employees. No other post retirement benefits are provided to these emloyees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016 by ZAQEN Actuaries (Pty) Ltd. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes :
- Bonitas
- Keyhealth
- LA Health
- Fed Health
- Samwumed

The amounts recognised in the statement of financial position are as follows:

	2016	2015
Carrying value		
Present value of post retirement benefits	(997 000)	(1 754 000)
Non-current liabilities	(956 000)	(1 599 000)
Current liabilities	(41 000)	(155 000)
	(997 000)	**(1 754 000)**

The fair value of plan assets includes:

	2016	2015
The liability in respect of past service has been estimated as follows:		
South African equities	997 000	1 754 000

Changes in the present value of the defined benefit obligation are as follows:

	2016	2015
Opening balance	1 754 000	1 529 000
Benefits paid	(196 906)	(328 191)
Net expense recognised in the statement of financial performance	(560 094)	553 191
	997 000	**1 754 000**

Net expense recognised in the statement of financial performance

	2016	2015
Current service cost	65 000	56 000
Interest cost	160 000	136 000
Actuarial (gains) losses	(785 094)	361 191
	(560 094)	**553 191**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

13. Employee benefit obligations (continued)

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(785 094)	361 191

Key assumptions used

Expected rate of return on reimbursement rights		58 years
Actual return on reimbursement rights		63 years

GRAP 25 defines the determination of the Discount rate assumption to be used as follows. “The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Financial Variable	**Assumed Value 30-06-2016 (Current Valuation)**	**Assumed Value 30-06-2015 (Preceding Valuation)**
Discount Rate	Yield Curve	1Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	1Difference between nominal and yield curves
Medical Aid Contribution Inflation	CPI+1%	1CPI+1%
Net Effective Discount Rate	Yield curve based	1Yield curve based

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

Amounts for the current and previous four years are as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Plan assets	997 000	1 754 000	1 529 000	1 353 000	-

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

13. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

Medical benefits

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The Municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by ZAQEN Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Long service awards

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a long service award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by ZAQEN Actuaries.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

14. Finance lease obligation

Minimum lease payments due		
- within one year	95 418	295 612
- in second to fifth year inclusive	73 667	169 084
	169 085	464 696
less: future finance charges	(14 424)	(41 079)
Present value of minimum lease payments	**154 661**	**423 617**
Present value of minimum lease payments due		
- within one year	85 592	268 956
- in second to fifth year inclusive	69 069	154 661
	154 661	**423 617**
Non-current liabilities	69 069	423 617
Current liabilities	85 591	-
	154 660	**423 617**

It is the municipality policy to lease certain property, plant and equipment under finance leases.

The lease terms are 5 years or less and the average effective borrowing rate was 9% (2015: 8.71%).

Interest rates are linked to prime to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality has the option to purchase the leased assets for a nominal amount at conclusion of the lease agreement.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 10.

Please refer to *Appendix A* for descriptions, maturity dates and effective interest rates of structured loans and finance.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

15. Long service awards

The municipality operates as unfunded deficit benefit plan for all its employees. Under the plan, a Long-service award is payable and extra leave is accrued after 5 years of continuous service and every 5 years thereafter to employees, from 10 years of service to 45 years of service.

This is the present value of the total Long-term service awards expected to become payable under the employer's current arrangements and based on the assumptions made. This may be regarded as the amount of money that should be set aside in present-day terms to cover all expected Long-term service awards for current employees

The most recent actuarial valuations on the Long-term service awards were carried out at 30 June 2015 by ZAQEN Actuaries (Pty) Ltd

Membership Data	Number of Active employees	Salary Weighted average age (Years)	Weighted average past service (Years)
Male	68	45	14
Female	28	43	15
	96	**44**	**15**

Reconciliation of long term service awards - 2015	Opening Balance	Actuarial (Gains)\Losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long term service award	1 043 316	399 942	(102 000)	101 556	69 186	1 512 000
Subtotal	1 043 316	399 942	(102 000)	101 556	69 186	1 512 000
	1 043 316	**399 942**	**(102 000)**	**101 556**	**69 186**	**1 512 000**

Reconciliation of long term service awards - 2014	Opening Balance	Actuarial (Gains)\Losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long term service award	1 002 376	(73 428)	171 474	(122 752)	65 646	1 043 316
Subtotal	1 002 376	(73 428)	171 474	(122 752)	65 646	1 043 316
	1 002 376	**(73 428)**	**171 474**	**(122 752)**	**65 646**	**1 043 316**

	2016	2015
Non - current liabilites	1 383 000	574 632
Current liabilities	129 000	468 684
	1 512 000	**1 043 316**

In estimating the liability for long service leave benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

The assumptions should be realistic and mutually compatable. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

15. Long service awards (continued)

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:.

Financial Variables	2015	2014
Discount Rate	Yield Curve	7,60 %
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	5,86 %
Normal Salary Increase Rate	Equal to CPI+1%	6,86 %
Net Effective Discount Rate	Yield Curve Based	0,70 %

Present value of unfunded obligations:		
Present value of unfunded obligations	(1 512 000)	(1 043 316)

Reconciliation of present value of fund obligations		
Present value of fund obligations at the beginning of the year	1 043 316	1 002 376
Current service costs	101 556	171 474
Benefits paid	(102 000)	(122 752)
Interest costs	69 186	65 646
Actual gains / (losses)	399 942	(73 428)
	1 512 000	**1 043 316**

Actuarial gain:

The main reasons for the actuarial gain can be attributed to the following factors:

Since this is the first time that we have done the valuation we were not able to do an exact breakdown of the actuarial loss shown above. However, the main reasons for the actuarial loss can be attributed to the following factors:

1. **Changes in economic variables** – In this year's valuation we used the nominal and real zero curves as at 30 June 2015 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. As a result of the interest rates, bond yields and inflation figures changed significantly. This resulted in an increase in liability of around **R 7,000**.

2. **Higher than expected salary inflation** – Over the past year, there was a larger than expected increase in average salary. This resulted in an increase in liability of around **R 110 000** .

3. **Membership Changes**- Over the past year, there were various changes in membership data. This, together with some other assumption changes, resulted in an increase in liability of around **R 270 000**.

Sensitivity analysis

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;

- 1% increase/decrease in the Normal Salary cost inflation

15. Long service awards (continued)

Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

Withdrawal rate	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	1 598 000	1 512 000	1 436 000
Current Service Cost	130 000	121 000	114 000
Interest Cost	148 000	139 000	132 000
	1 876 000	**1 772 000**	**1 682 000**

Normal salary inflation
The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

Normal salary inflation	1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	1 429 000	1 512 000	1 604 000
Current Service Cost	114 000	121 000	129 000
Interest Cost	131 000	139 000	148 000

16. Payables from exchange transactions

	2016	2015
Trade payables	53 407 247	43 104 529
Payments in advance	1 049 460	1 011 119
Accrued leave pay	1 410 808	1 243 193
Accrued bonus	306 711	310 309
Salary control	2 213 763	2 245 685
Retentions payable	2 109 749	2 021 009
Suspense Accounts	7 892 215	4 261 023
	68 389 953	**54 196 867**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

17. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Unwinding of discount rate	Total
Environmental rehabilitation	17 653 023	1 595 611	19 248 634

Reconciliation of provisions - 2015

	Opening Balance	Unwinding of discount rate	Total
Environmental rehabilitation	17 254 604	398 419	17 653 023

Liabilities are present obligations arising from past events, the settlement of which is expected to result in an outflow from the municipalities resources embodying economic benefits. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any futher pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, section 3(14)-(16) and 4(10) of Government Notice 718 of 3 July 2009 and the landfill permits issued under section 50 of National Environmental Management: Waste Act, Act 59 of 2008.

The expected timeframe for rehabilitation of the various landfill sites is between 0 to 28 years from the current period.

GRAP 19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to the market yields (at the financial position date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site. As such a discount rate of 7.80% (2015 - 8.83%) p.a has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the market closed on 30 June 2016.

The consumer price inflation of 6 % (2015 - 6.69%) p.a is obtained from the differential between the long term market yields on the index linded bond (the R197 at 1.68% p.a) consistent with the estimated term of the liabilities and those of nominal bond (the R 186 at 8.45% p.a).

Key financial assumptions used:	2016	2015
Discount rate	7,80 %	8,63 %
Inflation price inflation	6,00 %	6,66 %
	13,80 %	**15,29 %**

Non-current liabilities	18 147 791	17 326 973
Current liabilities	1 100 843	326 050
	19 248 634	**17 653 023**

Environmental rehabilitation provision

The provision relates to the future rehabilitation of the landfill sites in Phillipstown, Petrusville and Vanderkloof. The final rehabilitation is expected to take place in Petrusville in 2037.

Provision is made based on the net present value of the cost of rehabilitation. The cost factors as determined have been applied and projected at an inflation rate of 6% and discounted to the present value:

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Librabry Grant (Provincial Government)	550 315	-
Expanded Public Works Programme	39 283	-
	589 598	**-**

Movement during the year

Balance at the beginning of the year	-	3 316 686
Additions during the year	44 548 915	31 476 395
Income recognition during the year	(47 038 906)	(43 521 118)
Transfer between grants	3 079 588	-
Grant spending deferred as receivable	-	8 728 037
	589 597	**-**

The nature and extent of government grants and their conditions, restrictions and other contingencies attached to these government grants have to be fulfilled. Grant receipts with unfulfilled conditions are recognised in the annual financial statements as unspent conditional grants.

See note 25 for reconciliation of grants from National/Provincial Government.

Please refer to *Appendix D* for the reconciliation of grants from other spheres of government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. R???? grants were withheld.1

19. Accumulated surplus

Equity	1 054 950 296	1 066 607 239

20. Service charges

Sale of electricity	5 524 025	5 992 472
Sale of water	3 844 662	3 201 653
Sewerage charges	1 772 208	1 468 973
Refuse removal	1 157 135	969 740
	12 298 030	**11 632 838**

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

21. Rental of facilities and equipment

Premises		
Premises	281 089	248 765
Venue hire	11 404	22 360
	292 493	**271 125**
Garages and parking		
Carports	1 053	4 477

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

21. Rental of facilities and equipment (continued)

Facilities and equipment		
Rental of facilities	98 265	533 908
Rental of equipment	8 639	4 857
	106 904	**538 765**
	400 450	**814 367**

22. Sundry income

Sundry revenue	14 567	177 733

23. Investment revenue

Interest revenue		
Unlisted financial assets	266 855	141 387

24. Property rates

Rates received

Residential	3 120 407	2 911 376

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Residential Properties:

A general rate of 0,0066038 (2015: 0,0066038) is applied to property valuations to determine assessment rates. Rebates of R 15000.00 is given on residential property.

Businessl Properties:

A general rate of 0,0086093 (2015: 0,0086093) is applied to property valuations to determine assessment rates.

Agricultural Properties:

A general rate of 0,0015500 (2015: 0,0015500) is applied to property valuations to determine assessment rates. Rebates of 75% is given on agricultural property

Rates are levied monthly on property owners and are payable the end of each month. No interest is levied on rates outstanding.

25. Government grants and subsidies

Operating grants		
Equitable Share	20 168 000	16 421 000
Municipal Systems Improvement Grant	930 000	934 000
Finance Management Grant	1 875 000	1 800 000
Library Grant (Provincial Government)	926 685	719 000
Extended Public Works Programme	960 717	1 000 000
Provincial Treasury Financial Support	2 718 000	-
Capital grants		
Municipal Infrastructure Grant	3 135 641	12 008 587
Regional Bulk Infrastructure Grant	16 236 979	9 811 822

Figures in Rand	2016	2015

25. Government grants and subsidies (continued)

Intergrated National Electrification Grant	2 805 884	367 148
	22 178 504	**22 187 557**
	49 756 906	**43 061 557**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	22 606 532	26 640 557
Unconditional grants received	14 266 000	16 421 000
	36 872 532	**43 061 557**

Equitable Share

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Equitable share

Current-year receipts	12 277 000	12 046 000
Conditions met - transferred to revenue	(20 168 000)	(16 421 000)
Transfer from Municipal Infractural Grant	7 891 000	4 375 000
	-	-

Municipal Systems Improvement Grant

Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-

The Municipal Systems Improvement Grant (MSIG) is a conditional grant directed to selected Local and District municipalities. The purpose of the grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

Financial Management Grant

Current-year receipts	1 875 000	1 800 000
Conditions met - transferred to revenue	(1 875 000)	(1 800 000)
	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

25. Government grants and subsidies (continued)

Library Grant

Current-year receipts	1 477 000	719 000
Conditions met - transferred to revenue	(926 685)	(719 000)
	550 315	**-**

The Department of Sport, Arts & Culture Grant was used for the development of libraries in the Renosterberg area.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	3 684 833
Current-year receipts	7 390 000	7 740 999
Conditions met - transferred to revenue	(3 135 641)	(12 008 587)
Transfer to Equitable share	(7 891 000)	(4 475 000)
Grant spending deferred as receivable	3 636 641	5 057 755
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

The Municipal Infrastructure Grant (MIG) is a conditional grant to support municipal capital budgets to fund municipal infrastructure and to upgrade existing infrastructure, primarily benefiting poor households.

Department of Water Affairs Grant

Balance unspent at beginning of year	-	(618 108)
Current-year receipts	18 099 915	7 236 395
Conditions met - transferred to revenue	(16 236 978)	(9 811 822)
Grant spending deferred as receivable	(1 862 937)	3 193 535
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

The Department of Water Affairs Grant was used for water personnel salaries in the Renosterberg area.

Intergrated National Electrification Programme Grant

Balance unspent at beginning of year	-	249 962
Current-year receipts	1 500 000	-
Conditions met - transferred to revenue	(1 500 000)	(367 148)
Grant spending deferred as receivable	-	117 186
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

Expanded Public Works Programme Grant

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(960 717)	(1 000 000)
	39 283	**-**

Conditions still to be met - remain liabilities (see note 18).

The EPWP grant was used for road infrastructure development in the Renosterberg area.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

26. Revenue

Service charges	12 298 029	11 632 839
Rental of facilities and equipment	400 449	814 367
Sundry Income	14 567	177 733
Interest received - investment	266 855	141 387
Property rates	3 120 407	2 911 376
Income for Agency Services	-	16 551
Government grants & subsidies	49 756 907	43 061 557
Fines, Penalties and Forfeits	262	2 280
	65 857 476	**58 758 090**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	12 298 029	11 632 839
Rental of facilities and equipment	400 449	814 367
Sundry Income	14 567	177 733
Interest received - investment	266 855	141 387
	12 979 900	**12 766 326**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	3 120 407	2 911 376
Income for Agency Services	-	16 551
Transfer revenue		
Government grants & subsidies	49 756 907	43 061 557
Fines, Penalties and Forfeits	262	2 280
	52 877 576	**45 991 764**

Rebates

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

27. Bulk purchases

Electricity	9 602 323	8 415 181
Water	343 303	347 867
	9 945 626	**8 763 048**

Bulk purchases are commodities not generated by the municipality. These commodities are distributed in the municipal area for resale to consumers. Electricity is purchased from Eskom whilst water is purchased from the Department of Water Affairs.

28. Contracted services

Professional fees	4 465 203	3 483 907

Professional fees include services provided by the following entities:
- Makomota Investments Holdings
- Business Connextion
- Ntshidi and Associates
- Giscoe

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

29. Debt impairment

Debt impairment	-	-
Contributions to debt impairment provision	8 536 029	(2 221 070)
Bad debts written off	-	-
	8 536 029	**(2 221 070)**

<split the increase in provision from the actual wrtie-offs>

30. Depreciation and amortisation

Property, plant and equipment	22 268 557	22 393 916
Intangible assets	105 230	106 986
	22 373 787	**22 500 902**

31. Employee related costs

Basic	11 649 518	11 013 276
Bonus	876 553	749 939
Medical aid - company contributions	196 906	328 191
UIF	109 389	107 918
SDL	56 203	-
Other payroll levies	3 756	67 949
Leave pay provision charge	331 416	219 830
Defined contribution plans	485 000	362 742
Travel, motor car, accommodation, subsistence and other allowances	21 243	7 296
Overtime payments	388 884	294 814
Housing benefits and allowances	282 794	12 447
Cellphone allowance	-	200
Pension contributions	1 608 376	1 531 798
	16 010 038	**14 696 400**

Remuneration of the Municipal Manager - SW Maydo (Acting)

Annual Remuneration	-	393 367

Remuneration of the Municipal Manager - NG Veli (Acting)

Annual Remuneration	361 559	-
Acting allowance	430 181	-
Contributions to UIF, Medical and Pension Funds	52 362	-
	844 102	**-**

Remuneration of the Chief Financial Officer - J Snayers

Annual Remuneration	79 545	292 802
Contributions to UIF, Medical and Pension Funds	4 816	60 702
	84 361	**353 504**

Remuneration of the Director Technical Services - S Dick

Annual Remuneration	312 689	261 152
Contributions to UIF, Medical and Pension Funds	62 560	56 591
	375 249	**317 743**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

31. Employee related costs (continued)

Remuneration of the Director Corporate Services - M Mthini

Annual Remuneration	300 730	264 375
Contributions to UIF, Medical and Pension Funds	4 873	4 435
	305 603	**268 810**

Key Management Personnel

There are no post-employment or termination benefits payable to them at the end of the contract period.

32. Finance costs

Trade and other payables	5 150 779	3 353 895
Finance leases	26 656	48 824
Provision for landfill rehabilitation	1 595 610	398 419
	6 773 045	**3 801 138**

<interest on actuarial valuations>

33. General expenses

Advertising	5 977	43 134
Auditors remuneration	1 118 010	659 309
Bank charges	178 018	75 214
Consulting and professional fees	2 254 195	1 569 388
Donations	-	2 991 100
Entertainment	40 590	47 632
Hire	441 821	373 814
Insurance	592 723	617 676
IT expenses	128 378	119 370
Motor vehicle expenses	-	20 042
Fuel and oil	344 343	491 095
Postage and courier	49 014	54 943
Printing and stationery	155 216	89 830
Protective clothing	197 868	82 853
Subscriptions and membership fees	510 000	606 000
Telephone and fax	442 485	485 032
Training	366 700	31 643
Travel and subsistence	1 041 579	1 168 527
Ward committee	180 347	252 148
Search fees	-	250 000
Chemicals	320 286	325 570
	8 367 550	**10 354 320**

34. Remuneration of councillors

Executive Major	639 369	709 084
Councillors	1 329 866	1 386 884
	1 969 235	**2 095 968**

In-kind benefits

The Councillor occupying the position of Mayor in a full-time capacity.

The Mayor has an office at the municipality and is provided with secretarial support at the expense of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

35. Repairs and maintenance

Repairs and maintenance (general)	230 185	1 566 520
Repairs and maintenance (infrastructure)	417 897	698 044
	648 082	**2 264 564**

36. Cash generated from operations

Deficit	(11 656 944)	(7 689 176)
Adjustments for:		
Depreciation and amortisation	22 373 787	22 500 902
Gain on sale of assets and liabilities	144 845	378 093
Finance costs - Finance leases	26 656	-
Debt impairment	8 536 029	(2 221 070)
Movement in defined benefit obligation	(757 000)	225 000
Movements in provisions	1 595 610	398 420
Changes in working capital:		
Inventories	2 077	169 543
Other receivables from exchange transactions	(323 567)	-
Consumer debtors	(7 457 574)	(5 542 433)
Other receivables from non-exchange transactions	(3 035 908)	(10 090 191)
Payables from exchange transactions	14 193 087	22 486 456
VAT	(4 316 826)	(621 040)
Unspent conditional grants and receipts	589 597	(3 316 686)
Consumer deposits	93 085	29 605
	20 006 954	**16 707 423**

37. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	11 193 194	23 940 587
Total capital commitments		
Already contracted for but not provided for	11 193 194	23 940 587

This committed expenditure relates to infrastructure and will be financed by government grants.

38. Contingencies

Contingent liabilities

The entity is being sued for some of the following pending claims. All the claims are being contested based on legal advice. The certainty and the timing of the outflow of these liabilities are uncertain.

Contigent liabilities	2016	2015
Litigation against municipality for damages/ destruction caused to various appliances in the applicants home as a result of an extended power surge - Grant T Paget	8 850	8 850
Litigation against the municipality as a result of damages to residisual property at an interest of 15.5% from 26 November 2013 - WJ Rossouw	280 000	280 000
Contravention of Section 68(1) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) - Potential fine	10 000 000	10 000 000
	10 288 850	**10 288 850**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

38. Contingencies (continued)

Jonathan van Heerden vs municipality - Litigations for the intial application was incorrect in that the building plans were approved in 2008, whilst the application for removal of restrictions was only done in 2009. Added to that, the municipality council did not have the authority to approve the application for the removal of restrictions, since such applications have not been appoved by the MEC.Thefore the council resolution was ultra vires - rendering all procedures that followed, illegal.

39. Related parties

Relationships	
Accounting Officers	Refer to accounting officers' report note

<consider adding services charged to key management and councillors>

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

The compensation of key management personnel is set out in note 31 to the annual financial statements.

Loans key management and close member of family	Opening balance	Loans advanced	Loans repaid	Closing balance
Key management	-	-	-	-
Close member of family	-	-	-	-
	-	**-**	**-**	**-**

Since 1 July 2004 loans to councillors and senior management employees are not permitted.

40. Prior period errors

The following errors were corrected in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors.

The correction of the error(s) results in adjustments as follows:

40.1 Prior period error - Correction of interest and penalties late submission of VAT201's:

During the period under review it was noted that interest and penalties as well as the Vat control account was misstated at year-end. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in payables from exchange transactions	7 173 844
Decrease in VAT receivable	(8 286 925)
Decrease in opening accumulated surplus or deficit	1 015 374

Statement of Financial performance:	
Increase in finance Cost	97 706

40.2 Prior period error - Overstatement of payables from exchange transactions

During the period under review it was noted that certain debtors in advance were overstated as transactions posted to this account were not timeously cleared at year end. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Figures in Rand	2016	2015

40. Prior period errors (continued)

Statement of financial postion:		
Decrease in payables from exchange transactions		70 251 790
Increase in opening accumulated surplus or deficit		(70 251 790)

40.3 Prior period error - Understatement of payables from non-exchange transations

During the period under review it was noted that the salary control account was understated as other third party charges for the 2013/2014 year were not recorded and the SARS interest and penalties for the 2014/15 year were overstated as the interest & penalties were reversed. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in payables from non-exchange transactions		(1 064 977)
Decrease in opening accumulated surplus or deficit		1 196 953
Statement of Financial performance:		
Decrease in finance costs		(131 976)

40.4 Prior period error - Overstatement of payables from exchange transations

During the period under review it was noted that creditors opening balance was overstated as the bulk purcheses charge was incorrectly calculated as part of the year end accrual process and the 2014/15 bulk creditor opening balance was overstated. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in payables from non-exchange transactions		66 513
Increase in opening accumulated surplus or deficit		(1 667)
Statement of Financial performance:		
Decrease in bulk electricity		(66 340)
Increase in finance costs		1 494

40.5 Prior period error - Overstatement of payables from exchange transations

During the period under review it was noted that creditors opening balance was overstated as the 2013/2014 year end creditors were not reversed in the 2014/15 year and certain year end creditors for the 2014/15 year were duplicated as part of the year end accrual process. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in payables from exchange transactions		303 311
Decrease in VAT receivable		(1 895)
Increase in opening accumulated surplus or deficit		(168 398)
Statement of Financial performance:		
Decrease in general expenses		(34 148)
Decrease in repair & maintenance		(98 870)

40.6 Prior period error - Missstatement of Payables from Exchange transactions

During the period under review it was noted that payables from exchange were mistated by grants receipts that were allocated to the bank error ledger account. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in payables from exchange transactions		(2 875 421)
Increase in opening accumulated surplus or deficit		2 875 421

40. Prior period errors (continued)

40.7 Prior period error - Misstatement of intangible assets

During the period under review it was noted that the prior year's intangible asset register was misstated at 30 June 2015. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:	
Increase in intangible assets	2 465
Statement of Financial performance:	
Decrease in depreciation and amortisation	(2 465)

40.8 Prior period error - Misstatement of other assets

During the period under review it was noted that the prior year's other assets register was misstated at 30 June 2015. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:	
Decrease in other assets	(1 455 377)
Increase in opening accumulated surplus or deficit	1 205 396
Statement of Financial performance:	
Decrease in depreciation and amortisation	(128 112)
Increase in loss on sale of assets	378 093

40.9 Prior period error - Unsupported cost prices of Land and Buildings

During the period under review it was noted that adequate supporting documentation for the cost prices of land and buildings could not be obtained, it was decided to adopt the revaluation model for these assets effective 30 June 2014. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:	
Decrease in land and buildings	(77 762 462)
Decrease in revaluation reserve	76 633 201
Statement of financial performance:	
Decrease in depreciation	(76 000)
Decrease in donation income	1 205 261

40.10 Prior period error - Unsupported cost prices for intangible assets servitudes

During the period under review it was noted that adequate supporting documentation for the cost prices of servitude assets could not be obtained, it was decided to adopt the revaluation model for these assets effective 30 June 2014. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:	
Increase in intangible assets - servitudes	3 489 180
Increase in revaluation reserve	(3 489 180)

40.11 Prior period error - Unsupported cost prices for Community assets

During the period under review it was noted that adequate supporting documentation for the cost prices of community assets could not be obtained, it was decided to adopt the revaluation model for these assets effective 30 June 2014. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

40. Prior period errors (continued)

Statement of financial postion:	
Increase in community assets	782 675 288
Increase in revaluation reserve	(788 488 922)
Statement of financial performance:	
Increase in depreciation	4 101 634
Decrease in donation income	1 712 000

40.12 Prior period error - Unsupported cost prices for Infrastructure Assets

During the period under review it was noted that adequate supporting documentation for the cost prices of infrastructure assets could not be obtained, it was decided to adopt the revaluation model for these assets effective 30 June 2014. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:	
Decrease in infrastructure assets	(107 627 657)
Decrease in revaluation reserve	112 040 564
Statement of Financial performance:	
Decrease in depreciation and amortisation	(4 326 187)
Increase in repairs and maintenance	69 800
Decrease in loss on sale of asset	(156 520)

40.13 Prior period error - Misstatement of investment property

During the period under review it was noted that the prior year's investment property register was misstated at 30 June 2015. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:	
Increase in investment property	10 111 566
Increase in opening accumulated surplus or deficit	(13 102 667)
Statement of Financial performance:	
Increase in donations made	2 991 100

40.14 Prior period error - Misstatement of capital work in progress

During the period under review it was noted that the prior year's capital work in progress asset register was misstated at 30 June 2014. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:	
Decrease in capital work in progress	(4 208 170)
Increase in opening accumulated surplus or deficit	4 208 170

40.15 Prior period error - Misstatement of Payables from exchange transactions

During the period under review it was noted that the prior year's trade payables were misstated at 30 June 2015 due to . The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

40. Prior period errors (continued)

Statement of financial postion:		
Decrease in Payables from exchange transactions - Trade payables		9 720
Increase in Payables from exchange transactions - Suspense accounts		(2 500)
Decrease in VAT Receivables		(101)
Statement of Financial performance:		
Decrease in General expenses		(488)
Decrease in Repairs and Maintenance		(1 686)
Decrease in Subsistence and Travellling		(4 945)

Prior period error - Misstatment of leased assets

During the period under review it was noted that the prior year's leased assed register was misstaed at 30 June 2015. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position		
Increase in leased assets		476
Increase opening accumulated surplus or deficit		(622)
Statement of financial performance		
Increase in depreciation		146

Figures in Rand	2016	2015

41. Risk management

Financial risk management

This note presents information about the municipality's exposure to each of the financial risks below and the municipality's objectives, policies and procedures for measuring and managing financial risks. Further quantitive disclosures are included in the Annual Financial Statements.

The management overall responsibility for the establishment and oversight of the municipality risk management framework. The municipality audit committee oversees the monitoring of compliance with the municipality risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipality. The audit committee is assisted in its oversight role by the municipality internal audit function.

The municipality monitors and manages the financial risks relating to the operations of the municipality through internal risk reviews which analyse exposures by degree and magnitude of risks. These risks include the following:
- credit risk;
- liquidity risk; and
- market risk (including interest rate risk).

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The policies provide written principles on foreign exchange risk, interest rate risk, credit risk, and in the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The municipality does not enter into or trade in financial instruments for speculative purposes.

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Renosterberg Local Municipality exposure to liquidity risk is as a result of the funds not being available to cover future commitments.The municipality liquidity risk through ongoing review of commitments.

The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

All of the financial financial assets the municipality have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision been recorded accordingly. The impaired receivables are mostly due from customers defaulting on service costs levied by the municipality.

The table below analyses the municipality’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

2016	Less than 1 year	Between 1 and 2 years
Finance lease	95 418	73 667

2015	Less than 1 year	Between 1 and 2 years
Finance lease	295 612	169 084

Liquidity risk

Liquidity risk is the risk that the economic entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

41. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Financial assets exposed to credit risk at year end are shown in the relevant note for cash and cash equivalents and trade receivables.:

Financial instrument	2016	2015
Cash and cash equivalents	250 653	776 321
Receivables from exchange transactions	11 396 640	12 475 095
Receivables from non-exchange transactions	13 126 098	10 090 191
Other receivables from exchange transactions	323 567	-

The balances represent the maximum exposure to credit risk.

Market risk

Cash flow and fair value interest rate risk

The municipality's interest rate risk arises from finance lease liabilities and short term investments. Finance leases and short term investments at variable rates expose the municipality to cash flow interest rate risk. The sensitivity analysis for cash flow and fair value interest rate risk to which the municipality is exposed at the end of the reporting period is not considered material on profit and loss and were therefore not disclosed. During 2015 and 2014, the municipality's borrowings and investments at variable rates were denominated in the Rand.

Market rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect the entity's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no change, since the previous financial year to the municipality exposure to market risks or the manner in which itmanages and measures the risk.

Market risk consists of the following risks:

Interest Rate Risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality's policy is to minimise interest rate cash flow risk exposures on long-term financing. Long term borrowings are therefore usually at fixed rates. The municipality's exposures to interest rates on financial assets and financial liabilities are detailed below:

At year-end, financial instruments exposed to interest rate risk due to being linked to prime interest rate were as follows:

- Call and notice deposits
- Current bank accounts
- Interest charged on consumer receivables from exchange transactions overdue

The municipality's interest rate risk arises from the above financial instruments being linked to the prime interest rate. The prime interest rate is used as a factor in calculating the interest received or interest charged on these financial instruments

Fluctuations in the prime interest rate during the year give rise to a possible interest rate risk affecting the entity.

41. Risk management (continued)

Interest charged on the inter company loans are calculated using the prime rate at the beginning of the financial year on a weighted average basis. Since this interest rate is only based on prime rate at one point during the financial year, fluctuations in prime during the year will not have a material affect on these loans.

Price risk

Price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. These changes are caused by factors specific to the individual financial instruments for its users or by factors affecting all similar financial instruments in the market. The municipality's financial instruments are affected by the whole sale price of electricity from Eskom.

42. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated deficits of R 451 645 959 and that the municipality's total assets exceed its total liabilities by R 1 054 950 295.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality.

Management have evaluated all material going concern risks. Presented below are the major areas evaluated:

The municipality's current liabilities exceed it's current assets by R46 269 151 (R36 649 099 in 2015) which indicates a current asset ratio is below the required norm of between 1.5 - 2.

The municipality has noted a decrease in its revenue collection percentage.

Electricity distribution losses (technical and non-technical) has increased to 56% which is above the norm of between 0 - 15%. The municipality incurred a net deficit for the year under review of R11 656 944 (R7 698 176 in 2015), the major contributors to this change is the decreases in government grants, coupled with the increases in depreciation, bulk purchases and general expenses.

The municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that themuniciplaity has implemented a system to enhance the revenue collection and cash flow by improving on the debt recoverability processes.

After careful consideration of the factors mentioned Management is of the opinion that the municipality will be a going concern in the forseeable future based on the forecasts, avaliable cash resources and approved government funding for the next 2 financial years.

43. Events after the reporting date

Mr D Molaole was apponted as Acting Municipal Manager on 30 May 2017.

44. Unauthorised expenditure

	2016	2015
Unauthorised expenditure	97 023 502	64 614 588
Unauthorised expenditure - current year	28 899 968	32 408 914
	125 923 470	**97 023 502**

Management performed a review of transactions and identified none of the transactions to be unauthorised expenditure in accordance to the guidelines set per Chapter 1 of the MFMA.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

44. Unauthorised expenditure (continued)

All the matters noted above will be presented to Council during the 2014/2015 financial year end so that they could be speedily resolved and concluded. The amount for the year under review will be investigated to get the exact amount and this will be presented to council for further action.

<consider adding a reference to the Statement of Comparison for the users to see the actual vs budget and also see how unauthorised was calculated. A listing of actual vs budget per department can be added in a table format below these notes>

45. Fruitless and wasteful expenditure

	2016	2015
Opening balance	6 568 549	3 261 043
Fruitless and wasteful expenditure - current year	5 150 179	3 307 506
	11 718 728	**6 568 549**

Interest paid and penalties: The interest could not be avoided as the municipality had a cashflow problem at that stage, but will be tabled to Council for further action.

Details of fruitless & wasteful expenditure - Current year

Details of fruitless and wasteful expenditure - Current year	Disciplinary steps taken/criminal proceedings	
Interest on overdue account	The matter is under review. No official of the municipality is liable and expense has been submitted to Council for consideration of condonment.	5 121 025
Fines and Penalties	The matter is under review. No official of the municipality is liable and expense has been submitted to Council for consideration of condonment.	29 755
		5 150 780

Details of fruitless and wasteful expenditure - Previous year	Disciplinary steps taken/criminal proceedings	
Interest on overdue account	The matter is under review. No official of the municipality is liable and expense has been submitted to Council for consideration of condonment.	3 276 953
Other fruitless expenditure	The matter is under review. No official of the entity is liable and expense has been submitted to council for consideration of condonment.	30 553
		3 307 506

Analysis of expenditure awaiting condonation per age classification	2016	2015
Current year	5 150 779	3 307 506
Prior years	3 307 506	1 927 403
	8 458 285	**5 234 909**

46. Irregular expenditure

	2016	2015
Opening balance	98 506 041	78 742 705
Less: Amounts condoned	16 156 514	19 764 041
	114 662 555	**98 506 746**

Figures in Rand	2016	2015

46. Irregular expenditure (continued)

Analysis of expenditure awaiting condonation per age classification

	2016	2015
Current year	16 156 514	6 461 100
Prior years	98 506 705	78 742 705
	114 663 219	**85 203 805**

Details of irregular expenditure - Current year

	Disciplinary steps taken/criminal proceedings	
No proof of advertisement on municipality website	Matters must be investigated and submitted to Council	17 130
Appointment without following SCM procedures	Matters must be investigated and submitted to Council	16 139 384
		16 156 514

Details of irregular expenditure - Previous year

	Condoned by (condoning authority)	
Procument of goods and services by obtaining only one or two quotations	Matters must be investigated and submitted to Council	152 293
No proof of advertisement on municipality website	Matters must be investigated and submitted to Council	153 870
Appointment without following SCM procedures	Matters must be investigated and submitted to Council	19 457 878
		19 764 041

47. Additional disclosure in terms of Municipal Finance Management Act

Distribution losses - Water (Mega litres)

In the current year the water losses were 89.39% (2015 13.52%). These losses are the result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

Distribution loss	Units bought	Units sold	Units lost in distribution	%
2016	4 846 547	514 253	4 332 294	89

Distribution loss	Units bought	Units sold	Units lost in distribution	%
2015	3 547 514	3 067 776	479 738	14

The water distribution loss comprises of non-technical losses. For the 2015/16 financial year the distribution losses amounted to 89.39%. The annual water distribution loss are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

Non-technical losses:

Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of water, tampering with meters and connections which form part of illegal consumption, faulty meters, etc.

Figures in Rand	2016	2015

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Distribution losses - Electricity (Kwh)

In the current year the energy losses were 56.34% (2015 23.85%). These losses are the result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

Distribution loss	Units bought	Units sold	Units lost in distribution	%
2016	7 298 246	3 186 655	4 111 592	56

Distribution loss	Units bought	Units sold	Units lost in distribution	%
2015	7 890 113	6 008 317	1 881 796	24

The electricity distribution loss comprises of technical and non-technical losses. For the 2015/16 financial year the distribution losses amount to 56.34%. The annual electricity distribution loss are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

Non-technical losses:

Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity, tamperingwith meters and connections which form part of illegal consumption, faulty meters, etc.

Technical losses:

Technical losses are the result of electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. The wires (copper or aluminium) being used to distribute electricity has certain resistance which resist throughout thef current, as a result there is a certain portion of electricity that is lost due to distribution.

Contributions to organised local government

	2016	2015
Opening balance	1 079 115	829 115
Current year subscription / fee	510 000	500 000
Amount paid - previous years	-	(250 000)
	1 589 115	**1 079 115**

Audit fees

	2016	2015
Opening balance	7 456 200	6 740 269
Current year subscription / fee	1 993 777	1 315 931
Amount paid - previous years	-	(600 000)
	9 449 977	**7 456 200**

The balance unpaid represents the audit fee for the current year as well as the fees for previous financial years which have not yet been paid.

PAYE and UIF

	2016	2015
Opening balance	454 114	117 891
Current year subscription / fee	1 592 658	1 448 489
Amount paid - current year	(1 064 311)	(994 376)
Amount paid - previous years	(454 114)	(117 890)
	528 347	**454 114**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	802 833	59 344
Current year subscription / fee	2 728 887	2 849 327
Amount paid - current year	(1 710 967)	(2 046 494)
Amount paid - previous years	(802 833)	(59 344)
	1 017 920	**802 833**

VAT

VAT payable	626 494	4 943 319

VAT output payables and VAT input receivables are shown in note 8.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Booysen H	714	2 837	3 551
Councillor Bitterbos M	475	1 529	2 004
Councillor Olifant K	397	765	1 162
Councillor Niklaas JD	1 001	1 009	2 010
Councillor Olifant JD	6 032	32 529	38 561
Councillor Duiker P	61	263	324
	8 680	**38 932**	**47 612**

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Boosysen H	777	5 338	6 115
Councillor Bitterbosch M	31	1 323	1 354
Councillor Kwinana A	7 097	30 723	37 820
Councillor Niklaas JD	166	4 211	4 377
Councillor Oilfant JD	4 031	35 484	39 515
	12 102	**77 079**	**89 181**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of Section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved and/or condoned by the Accounting Officer and noted by the Board of Directors
.

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

For the period under review there were instances where goods and services were procured via a deviation from the normal Supply Chain Management Regulations.

The reasons for these deviations were documented and reported to the Accounting Officer, who considered them and subsequently approved the deviation from the normal Supply Chain Management Regulations.

Incident		
Other	-	14
Other	-	25
Other	-	76
	-	**115**

48. VAT payable

Vat control	626 494	4 943 319

Vat is payable on the cash basis.

The following Vat 201 returns were submitted late during the period under review namely period 03/2016, 04/2016, 05/2016 and 06/2016

49. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Cash and cash equivalents	250 653	250 653
Receivables from exchange transactions	11 396 640	11 396 640
Receivables from non-exchange transactions	13 126 098	13 126 098
Other receivables from exchange transactions	323 567	323 567
	25 096 958	**25 096 958**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	68 389 953	68 389 953

2015

Financial assets

. Financial instruments disclosure (continued)

	At amortised cost	Total
Cash and cash equivalents	776 321	776 321
Consumer debtors	12 475 095	12 475 095
Receivables from non-exchange transactions	10 090 191	10 090 191
	23 341 607	**23 341 607**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	54 196 867	54 196 867

50. Budget differences

Variance Explanations

The budget is approved on an accrual basis by nature of classification. The budget and the accounting bases are both on the accrual basis. The annual financial statements are prepared using the nature of expenses in the statement of financial performance. The approved budget covers the fiscal period from 1 July 2015 to 30 June 2016.

Changes from approved budget to final budget are the result of reallocations and shifting within the budget.

Basis for material differences between budget and actual amounts

It is general practice to deem a 10% deviation on operational revenue and expenditure versus the final budget as materialt

Explanations for material variances relating to the Statement of Financial Performance is set out as follows:

1. Service charges - The variance is attributed to impact that the ESKOM call on customers to use electricity more sparing has had on the general consumption. Other factors include the tariffs adjustments during the course of the year and the electricity theft and meter tampering.

2. Rental of facilities and equipment - The variance is mainly due to the fact that rental revenue budgeted for did not materialize as anticipated.

3. Other Income - The variance is mainly due to the fact that some of the other revenue line items budgeted for did not materialize as anticipated. These include insurance claims, fines and training income.

4. Interest received - less interest was earned on investment than participated to withdrawal for the funding of grants expenditures.

5. Licences or Permits - The variance is mainly due to the fact that some of the revenue line items budgeted for did not materialize as anticipated.

6. Government grants & subsidies - The variance was due to additional funding obtained from the provincial treasury and the adjustement of the equitable share allocation.

7. Fines, Penalties and Forfeits - The variance is mainly due to the fact that some of the revenue line items budgeted for did not materialize as anticipated. These include fines and penalties.

8. Personnel - The Varience was due to terminations of employees, and vacant position that could not be filled in the current year.

9. Remuneration of councillors - The variance is due to a change in councillors

10. Depreciation and amortisation - The variance is mainly due to a new asset register that has been brought with restated capital costs.

Figures in Rand	2016	2015

50. Repairs and maintenance (continued)

11. Finance costs - The variance is due to interest levied on outstanding eskom invoices, and change in actuarial valuation.

12. Debt impairment - The variance is due to increase in debt impairment due to a significant increase in non-payment of debtors accounts

13. Repairs and maintenance - The varience is due to an increase in capital projects in the current year.

14. Bulk purchases - The variance is due to an increase in Eskom Tarrifs, as approved by NERSA.

15. Contracted Services - The varience is due to change in service providers compiling asset registers due to unsatisfactory in services rendered.

16. General Expenses - The varience is due to cost cut measures, thus saving in certain expenditures.

Renosterberg Local Municipality
Renosterberg Local Municipality
Appendix B
June 2016

Analysis of property, plant and equipment as at 30 June 2012

Cost/Revaluation

Accumulated depreciation

Land and buildings

Land (Separate for AFS purposes)
Landfill Sites (Separate for AFS pursoses)
Quarries (Separate for AFS purposes)

Infrastructure

Roads, Pavements & Bridges
Storm water
Generation
Transmission & Reticulation
Street lighting
Dams & Reservoirs
Water purification
Reticulation
Reticulation
Sewerage purification
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)
Housing
Waste Management
Gas
Other (fibre optic, WIFI infrastructur)
Other 1

Total

Land and buildings
Infrastructure
Community Assets
Heritage assets
Specialised vehicles
Other assets
Agricultural/Biological assets
Intangible assets
Investment properties

Renosterberg Local Municipality

Analysis of property, plant and equipment as at 30 June 2

Cost/Revaluation

Accumulated depr

Land and buildings

Land (Separate for AFS purposes)
Landfill Sites (Separate for AFS pursoses)
Quarries (Separate for AFS purposes)

Infrastructure

Roads, Pavements & Bridges
Storm water
Generation
Transmission & Reticulation
Street lighting
Dams & Reservoirs
Water purification
Reticulation
Reticulation
Sewerage purification
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)
Housing
Waste Management
Gas
Other (fibre optic, WIFI infrastructur)
Other 1

Analysis of property, plant and equipment as at 30 June 2

	Cost/Revaluation	Accumulated depr
Total		

Renosterberg Local Municipality
Appendix D
June 2016

Segmental Statement of Financial Performance for the year ended

Prior Year				Current Year		
Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
			Municipality			
-	-	-	Executive & Council/Mayor and Council	-	-	-
-	-	-	Finance & Admin/Finance	-	-	-
-	-	-	Planning and Development/Economic Development/Plan	-	-	-
-	-	-	Health/Clinics	-	-	-
-	-	-	Comm. & Social/Libraries and archives	-	-	-
-	-	-	Housing	-	-	-
-	-	-	Public Safety/Police	-	-	-
-	-	-	Sport and Recreation	-	-	-
-	-	-	Environmental Protection/Pollution Control	-	-	-
-	-	-	Waste Water Management/Sewerage	-	-	-
-	-	-	Road Transport/Roads	-	-	-
-	-	-	Water/Water Distribution	-	-	-
-	-	-	Electricity /Electricity Distribution	-	-	-
-	-	-	Other/Air Transport	-	-	-
-	-	-		-	-	-
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-	-	-	Municipality	-	-	-
-	-	-	Municipal Owned Entities	-	-	-
-	-	-	Other charges	-	-	-
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-	**-**	**-**	**Total**	**-**	**-**	**-**

Renosterberg Local Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2016

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun		Yes/ No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
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		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.